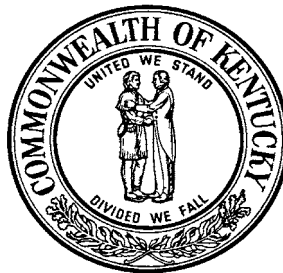


**REPORT OF THE AUDIT OF THE
FORMER GARRARD COUNTY
CLERK**

**For The Year Ended
December 31, 2001**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER GARRARD COUNTY CLERK

**For The Year Ended
December 31, 2001**

The Auditor of Public Accounts has completed the former Garrard County Clerk's audit for year ended December 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$3,939 from the prior calendar year, resulting in excess fees of \$75,368 as of December 31, 2001. Revenues increased by \$34,024 from the prior year and disbursements increased by \$36,323.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable E. J. Hasty, Garrard County Judge/Executive
Honorable Shelton Moss, Former Garrard County Clerk
Honorable Stacy H. May, Garrard Count Clerk
Members of the Garrard County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Clerk of Garrard County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Clerk for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable E. J. Hasty, Garrard County Judge/Executive
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In accordance with Government Auditing Standards, we have also issued our report dated February 21, 2003, on our consideration of the former County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
February 21, 2003

GARRARD COUNTY
SHELTON MOSS, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2001

Receipts

State Grants	\$	2,695
State Fees For Services		9,792
Fiscal Court		4,886

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	314,424
Lien Release Fees		3,998
Usage Tax		475,635
Tangible Personal Property Tax		994,355

Licenses-

Fish and Game	8,409
Marriage	3,726
Occupational	25
Deed Transfer Tax	45,589
Delinquent Tax	125,426

1,971,587

Fees Collected for Services:

Recordings-

Deeds	\$	12,715
Releases		11,360
Bail Bonds		420
Real Estate Mortgages		36,895
Leases		137
Chattel Mortgages and Financing Statements		37,789
Fixture Filings		80
Liens and Lis Pendens		1,906
Powers of Attorney		891
Wills and Estate Settlements		536
All Other Recordings		2,999

Charges for Other Services-

Candidate Filing Fees	900
Copywork	2,513
Miscellaneous	426

The accompanying notes are an integral part of this financial statement.

GARRARD COUNTY
 SHELTON MOSS, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Receipts (Continued)

Other-			
Postage	\$	782	
Child Victim Fund		5	
Prior Year Account Transfers		13	
Bank credit Memo		2	
Outstanding Accounts Receivable		1,971	
Refunds and Overpayments		6,802	
Interest Earned		<u>2,494</u>	\$ 121,636
Total Receipts			\$ 2,110,596

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	245,050	
Usage Tax		460,937	
Tangible Personal Property Tax		395,496	
Licenses, Taxes, and Fees-			
Fish and Game		7,955	
Delinquent Tax		15,986	
Legal Process Tax		13,748	
Candidate Filing Fees		<u>540</u>	1,139,712

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	67,787	
Delinquent Tax		10,163	
Deed Transfer Tax		<u>43,310</u>	121,260

Payments to Other Districts:

Tangible Personal Property Tax	\$	491,161	
Delinquent Tax		<u>67,968</u>	559,129

Payments to Sheriff			1,690
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The accompanying notes are an integral part of this financial statement.

GARRARD COUNTY
 SHELTON MOSS, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Disbursements (Continued)

Payments to County Attorney	\$	17,695	
Operating Disbursements:			
Personnel Services-			
Deputies' Salaries	\$	88,942	
Contracted Services-			
Microfilming and Indexing		26,014	
Library and Archives		2,695	
Materials and Supplies-			
Office Supplies		2,868	
Other Charges-			
Dues		350	
Refunds		9,857	
Miscellaneous		110	130,836
			<hr/>
Total Disbursements			\$ 1,970,322
			<hr/>
Net Receipts	\$	140,274	
Less: Statutory Maximum			61,306
			<hr/>
Excess Fees	\$	78,968	
Less: Expense Allowance			3,600
			<hr/>
Excess Fees Due County for 2001	\$	75,368	
Payments to County Treasurer - March 11, 2002	\$	75,272	
May 15, 2002		12	
June 20, 2002		8	
February 18, 2003		76	75,368
			<hr/>
Balance Due at Completion of Audit	\$		0
			<hr/>

The accompanying notes are an integral part of this financial statement.

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the year.

GARRARD COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2001
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

Note 4. Libraries and Archives Grant

The balance in the County Clerk's Library and Archives Grant account as of January 1, 2001 was \$2,618. Funds totaling \$77 were received and \$2,695 were expended during calendar year 2001.

Note 5. Computer Hardware and Software Service Agreements

The Clerk's office was committed to the following computer hardware and software service agreements as of December 31, 2001:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2001
Computer Hardware	\$ 1,322	60 Months	January 2004	\$ 31,728
Computer Software	\$ 800	60 Months	January 2004	\$ 19,400
Payroll System	\$ 50	35 Months	January 2004	\$ 1,200

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COMMENT AND RECOMMENDATION

GARRARD COUNTY
SHELTON MOSS, FORMER COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2001

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The former Clerk's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. The following compensating controls could have been implemented to offset this internal control weakness:

- The former Clerk could have periodically compared a daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences could have been reconciled. He could have documented this by initialing the bank deposit, daily deposit, and receipts ledger.
- The former Clerk could have compared the quarterly financial report to receipts and disbursements ledgers for accuracy. The Clerk could also have compared the salaries listed on the quarterly report to the individual earning records. Any differences could have been reconciled. The former Clerk could have documented this by initialing the quarterly financial report.
- The former Clerk could have periodically compared invoices to payments. The former Clerk could have documented this by initialing the invoices.
- The former Clerk could have periodically compared the bank reconciliation to the balance in the checkbook. Any differences could have been reconciled. The former Clerk could have documented this by initialing the bank reconciliation and the balance in the checkbook.

Former County Clerk's Response:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the former Garrard County Clerk for the year ended December 31, 2001, and have issued our report thereon dated February 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Garrard County Clerk's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Garrard County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
February 21, 2003

